

YOUTH UNEMPLOYMENT

AN AGENDA FOR ACTION



BUSINESS, GROWTH AND INCLUSION

Tackling youth unemployment in cities, towns and townships



CENTRE FOR
DEVELOPMENT
AND ENTERPRISE



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The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

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This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the Centre for Development and Enterprise and can in no way be taken to reflect the views of the European Union.

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August 2017

ISBN: 978-1-920653-37-8

Youth Unemployment

An agenda for action

Youth unemployment is the country's most pressing socio-economic crisis. This devastating reality for millions and millions of young people is the result of the malign legacies of apartheid and the failure of a democratic society to adopt policies that respond to the extent and severity of the crisis. South Africa's economic strategy has not produced the growth or employment that we desperately need. There have been numerous targeted initiatives to address the challenge but they have had only limited impact on the vast numbers of young people without work.

CDE's Youth Unemployment project has involved engagements with key stakeholders in the 20 municipalities that have the largest number of unemployed young people, workshops with experts and academics, as well as commissioned research into the impact of the policy choices and actions prioritised to date.

This report is one of three in a series on youth unemployment:

- **No country for young people:**
The crisis of youth unemployment and what to do about it
- **Business, growth and inclusion:**
Tackling youth unemployment in cities, towns and townships
- **Citizens in Action:**
How to build constructive business-government relationships in urban areas.

The key recommendation is that the scale of youth unemployment in the country must shape a bold, new agenda for action. Most of the current projects, initiatives and approaches are useful but they only make a small contribution relative to the scale of the challenge.

South Africa needs millions of new jobs for the workforce we actually have, not the workforce we wish we had. If we are to move the dial, the country needs system-wide reforms that produce accelerated inclusive growth that is urban-led, private sector driven, enabled by a smart state and targeted at mass employment. This requires strong national leadership by politicians, business and civic leaders and a recognition that more of the same will not result in change for the better.

The 20 youth unemployment “hot spots”
in South Africa.



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BUSINESS, GROWTH AND INCLUSION

Tackling youth unemployment in cities, towns and townships

In the main policy report in this CDE series on youth unemployment, *No Country for Young People: The crisis of youth unemployment and what to do about it* (2017) CDE's research confirms that youth unemployment is a national crisis involving millions of South Africans. This affects cities, towns, townships and regions in different ways, and thinking about what should be done will need local solutions within a much more accommodating national framework.

In this research report, CDE focuses on the 20 municipal regions with the highest number of unemployed young people and considers possible solutions that will have a significant impact in these, sometimes very different, locations. Youth unemployment afflicts metros like Johannesburg and Cape Town, where it is often concentrated in townships; it devastates secondary cities such as Rustenburg and Matjhabeng (Welkom) whose economies are in a severe slump and it is a structural feature especially of rural towns such as Bushbuckridge. The overall challenge of significantly reducing these high unemployment levels will involve system-wide reforms, but finding solutions will need to take local factors of geography, demography and economic potential into account.

The first section of the report provides research statistics on each of the regions CDE visited for this project and discusses the relative economic potential of each region. On the basis of this evidence we then reflect on how regional differences should be taken into account when designing policies to tackle youth unemployment.

In the second section we argue that local governments in municipal regions with economic potential should prioritise enterprise-led growth. This requires that municipalities work closely with existing businesses and engage in constructive government-business dialogue. Municipalities should encourage the creation of new firms and attract new investments by building a business-friendly environment in their towns or cities, as well as in surrounding areas. On a cautionary note, we argue that although promoting entrepreneurship is an essential ingredient for enterprise-led growth, allocating resources towards turning young, unemployed and inexperienced people into self-employed entrepreneurs is a strategy that will largely fail.

In the third section we explore additional policy issues that could be considered at a regional level. These include finding ways to help young people with the challenges of job-search and the possibilities of setting up special economic zones in specific parts of South Africa.

The final section sets out the policy priorities that emerge from our research and analysis.

“Local governments in regions with economic potential should prioritise enterprise-led growth.”

Youth unemployment and economic potential in twenty municipalities

South Africa's national conversation about youth unemployment focuses primarily on the aggregate numbers and does not sufficiently allow for the spatial complexities and diversity which CDE's research uncovered. In addition, when the special challenges facing households living in remote rural areas come into focus, subsequent policy discussions tend to be about local projects with limited potential; providing special assistance to those areas that are the most deprived; and in general about making poor and unemployed people slightly better off without really tackling the underlying conditions that trap them in poverty.

This is not helpful. We need to take the special plight of young people in rural towns much more seriously. To change the prospects of unemployed, poverty-stricken young people, we need to apply three policy guidelines: all of them designed to ensure that regional challenges are integrated into a comprehensive national strategy with a chance of having a fundamental impact on the current crisis.

1. South Africa should focus investment and economic strategies in those areas with the most economic potential.

This means working with rather than struggling against the reality that growth will always be unbalanced. Some places have more economic potential and will grow faster than others. Trying to spread growth more evenly leads, in the words of the World Bank's report on this issue, to policies that 'fight prosperity rather than poverty'.¹

2. We should help people, not places.

Some policy-makers advocate that regions with the most poor and unemployed people deserve to receive the most attention and significant public resources. This kind of thinking has underpinned numerous rural development initiatives since the end of apartheid, but with very limited results.² The sharpest insight on these policy issues comes from the world's leading urban economist, Harvard-based Professor Ed Glaeser. Speaking to South African policy-makers in 2015 he advised that, rather than finding ways to create artificial opportunities in remote or declining regions, they should find ways to help people connect to the opportunities that do exist. By improving education levels in areas with limited or uncertain economic potential, for example, two possible outcomes, both of them positive, could emerge.³ First, human capital levels in these areas could rise, which could increase the returns to the economic potential that already exists in some secondary cities. The second and more likely outcome is that more educated residents become more employable and are then able to move to and find jobs in urban centres like Johannesburg.⁴

"Trying to spread growth more evenly leads to policies that fight prosperity rather than poverty."

¹World Bank, World Development Report 2009: Reshaping Economic Geography (Washington, DC: World Bank, 2009)

²Such as the Comprehensive Rural Development Programme, National Rural Youth Service Corps programme, Recapitalisation and Development Programme (RADP) and Rural Economic Development Initiative (REDI).

³CDE, Cities - Pathways to Prosperity: A presentation by Edward Glaeser, 2015.

⁴CDE, Pathways to Prosperity, 2015

3. **We need to prioritise interventions and promote processes that will transform current spatial patterns** and create integrated, inclusive cities and towns, where opportunities are accessible to all those who seek them. The geographical patterns created by our apartheid past must be realistically and systematically eradicated. Too frequently, though, at both the national and the regional level, policies are implemented that, often unintentionally, reinforce the spatial legacies of the past.

In the section that follows we explore each of these policy-related issues in more depth. Before doing so, we set out some data and insights showing how widely and on what indices the 20 municipalities with the highest rates of unemployment diverge from one another, and how we should think about the economic potential of each.

In the table on the next page we set out details on the 20 municipalities we visited. These areas are listed in terms of their youth unemployment rates from highest (Bushbuckridge) to lowest (Johannesburg), as well as information on growth rates, population densities, poverty levels, and educational achievements of each municipal region.

Assessing the economic potential of twenty municipal regions

The data in the table make it clear that these 20 municipalities, while all experiencing unacceptably high levels of youth unemployment, diverge significantly in terms of their economic potential and the challenges they face.

However, on what basis should we assess their relative potential? Which areas are likely to generate the most opportunities for young, unemployed people and which have limited prospects to create the growth and jobs that are critical for overcoming South Africa's youth unemployment crisis?

To find a sensible way of understanding which region on this list has the most potential and which has the least in comparison to one another, we consider three measurable factors. Although these are not the only ones determining a region's economic potential, we have some data on each of these factors at the regional level and they do all play a critical role as well as interacting with and reinforcing one another.

- Population density indicates the extent to which people live in proximity to one another, making it easy for them to share ideas, create markets for goods and services that are large enough to sustain businesses, find employment and sell goods and services to one another. The further apart people live, the more costly these three activities become.
- Poverty acts as a proxy for the amount of money people have to spend on goods and services, in the context of measuring economic potential. This metric also tells us something about the area's capacity to produce and therefore, the relative productivity rates. Areas where average productivity levels are high are more likely to see business creation and expansion.

"The geographical patterns created by our apartheid past must be realistically and systematically eradicated."

Youth Unemployment “Hot Spots”												
Municipality	Major Towns	Youth unemployment-broad (%), 2011	Youth unemployment-broad (number), 2011	Youth unemployment-narrow (%), 2011	Youth unemployment-narrow (number), 2011	Total unemployment, narrow (%)-2011	Economic growth rates, 2011	Population density, per square kilometre	Poverty Levels		Human capital	
									Income poverty (%)	Multi-dimensional poverty (%)	Matric (20-24), number	Higher Edu(20-24), %
Bushbuckridge	Bushbuckridge	75.6	78 113	64.6	46 000	52.1	1.3	53.7	84.0	34.8	23 464	2.8
Thulamela	Thohoyandou	71.9	70 028	58.3	38 000	43.8	1.7	105.5	79.9	38.9	22 424	7.2
Greater Tubatse	Burgersfort	66.8	47 296	59.6	35 000	50.3	1.9	72	74.0	44.4	10 420	4.0
Makhado	Louis Trichardt	63.7	52 942	49.6	30 000	36.7	2.1	61.9	78.8	37.7	15 443	4.7
Matjhabeng	Welkom	57.6	53 618	49.7	39 000	37.0	-0.8	78	62.0	29.4	16 342	5.8
Nelson Mandela Bay	Port Elizabeth	55.7	146 719	47.3	105 000	36.6	3.6	585.7	57.6	26.2	47 038	7.0
Buffalo City	East London	55.1	91 253	45.1	61 000	35.1	2.6	295.8	60.9	30.7	28 559	6.9
Emfuleni	Vereeniging	52.4	94 411	45.0	75 000	34.7	1.0	740.8	52.8	20.4	38 794	9.6
Msunduzi	Pietermaritzburg	50.0	70 000	43.1	53 000	33.0	1.5	955.5	57.7	23.7	33 729	7.8
Polokwane	Pietersburg	49.6	68 040	42.0	50 000	32.4	1.7	164.3	62.5	26.5	30 701	9.2
eThekweni	Durban	49.1	466 193	39.0	309 000	30.2	4.0	1 474.8	52.5	22.7	207 434	7.3
Mbombela	Nelspruit	48.4	71 549	37.6	46 000	28.1	1.5	109.5	62.8	25.0	30 497	4.9
Mangaung	Bloemfontein	45.6	79 146	37.2	56 000	27.7	2.9	117.7	54.5	25.2	37 585	9.3
Madibeng	Brits	44.8	58 090	38.2	44 000	30.4	2.0	121.8	52.9	34.9	19 652	3.9
Ekurhuleni	East Rand	43.9	414 333	36.9	310 000	28.8	4.4	1 588.6	44.2	23.6	164 699	8.1
Emalahleni	Witbank	43.1	48 953	36.0	36 000	27.3	2.4	145	40.3	27.0	19 682	7.3
Rustenburg	Rustenburg	40.9	64 393	34.7	49 000	26.4	3.4	158.9	40.6	27.7	25 187	4.4
City of Tshwane	Pretoria	39.9	325 644	32.6	237 000	24.2	3.6	457.5	38.9	19.9	161 419	13.0
City of Cape Town	Cape Town	39.8	392 583	31.9	277 000	23.9	3.9	1 519.5	42.4	22.5	154 339	8.9
City of Johannesburg	Johannesburg	38.4	524 410	31.5	387 000	25.0	3.7	2 660.1	39.0	19.1	237 765	10.6

CDE 2017, Based on StatsSA Data & SALDRU Research⁵

- Human capital levels play a vital role: higher levels of education lead directly to higher levels of productivity, but interactions between people with high levels of education also create spill-over benefits as individuals benefit from working with and learning from each other.

We scored each of the regions we visited according to their rankings (from worst to best) for density, poverty and human capital. The regions with the lowest scores are the ones with the least potential. If a region ranked twentieth in terms of density, for example, it scored one point. If it ranked nineteenth, it scored two points, and so on.

Based on the scores, we organised the regions into four categories: rural towns with the least potential; secondary cities with lower potential; secondary cities with more potential and the metros.

⁵The source for much of this data is Census 2011 (which in many cases is still the most up to date regional data available). Youth covers those who are aged 15-34. The narrow unemployed numbers are taken from the StatsSA website (<http://www.statssa.gov.za>); the broad definition numbers were emailed to us from StatsSA. Economic growth rates are from: HSRC's The City of Johannesburg Economic Review 2013; D. Wilson, A regional Economic Overview: Focusing on rural and concentrated economies, 2012; South African Cities Network Emfuleni: Steeling the River City (2014); City of Polokwane's Performance of the Local Economy Brochure (2014); Mbombela Local Economic Development Strategy Review (2015); Housing Development Agency: Municipal Profile (2015). The poverty data we present shows, firstly, both the percentage of the population living on an income below the Stats SA's 2015 upper-bound poverty line of R779 per person per month in 2011 prices. We also present the multi-dimensional poverty levels for each region, based on criteria developed by SALDRU. For an explanation of these measures see: Arden Finn, Murray Leibbrandt, Ingrid Woolard, The significant decline in poverty in its many dimensions since 1993, 29 July 2013. Numbers for population density, poverty levels, and human capital are taken from Youth Explorer (<https://youthexplorer.org.za/>).

Rural towns with the least potential (in order of least to most) are: Bushbuckridge (3 points); Makhado (Louis Trichardt) (10 points); Greater Tubatse (Burgersfort) (10); Thulamela (Thohoyandou) (17). These four municipalities have (according to our analysis) the lowest economic potential of the twenty we visited.

Secondary cities with lower potential are: Mbombela (Nelspruit) (17); Matjhabeng (Welkom) (18); Madibeng (Brits) (22); Rustenburg (31).

Secondary cities with more potential are: Polokwane (33); Msunduzi (Pietermaritzburg) (38); Emalahleni (Witbank) (39); Emfuleni (Vereeniging) (46).

Metros, scored from low to high in terms of economic potential, are: Buffalo City (East London) with 28 points scores lower than secondary cities such as Rustenburg and Emalahleni (Witbank). Nelson Mandela Bay (Port Elizabeth) (33) and Mangaung (Bloemfontein) (35) also score relatively badly. eThekweni (Durban) (with 42 points) and Ekurhuleni (East Rand) (48 points) rank 6th and 4th respectively. The three municipalities with the best scores are: City of Cape Town (49 points), City of Tshwane (53) and Johannesburg (58).

Other factors can influence a region's economic potential but do not appear in our analysis. These include: the nature and complexity of business opportunities in each place; where these businesses rank in terms of productivity; the potential they have for adding value; and their location with respect to other regions. Ideally, it would be beneficial to factor in more variables. Unfortunately, data for issues like business complexity and the nature of local economies are not readily available and would require in depth research into each region.⁶

It is also important to note that while we define these municipal regions in terms of their urban characteristics (i.e. rural towns, secondary cities, metros), many of them are quite diverse and contain large rural hinterlands. For example, Mbombela, one of the lowest ranking 'secondary cities' in our classification, incorporates the capital of Mpumalanga, Nelspruit, (labelled the fastest growing city in South Africa in the early 2000s), surrounded by numerous large and poverty-stricken rural areas. This helps explain why Mbombela has the fifth lowest population density levels on our list and the fourth highest poverty levels.

How should we think about tackling youth unemployment within each of the regional categories discussed above? We begin our analysis with the metros.

Metros: jobs and growth

In the case of South African metros with high growth potential: Johannesburg, Cape Town, Tshwane, Ekurhuleni and eThekweni, national and provincial policies should prioritise economic growth and the generation of many more economic opportunities (especially accessible formal sector jobs) for young people. City governments

⁶This work is beginning to be undertaken by the South African Cities Network, and a number of their reports have proven very helpful, L.Marais, Outside the Core: Towards an Understanding of Intermediate Cities in South Africa, 2014, Retrieved from: http://www.sacities.net/wp-content/uploads/2014/12/2nd-Report-SACN-Secondary-Cities-Report_web.pdf SACN, Case Study: Emalahleni, 2014, Retrieved from: <http://www.sacities.net/2015/10/>

“Policies should prioritise economic growth and the generation of many more economic opportunities for young people.”

can reinforce these trends by making rapid, labour-intensive growth their main policy priority.

It is clear that most of the country's economic potential is concentrated in the two largest urban centres in South Africa, Johannesburg and Cape Town, and consequently more can be achieved to generate opportunities for the unemployed. Johannesburg has a working age population (15-64) of 3 652 000, of whom 861 000 (30.2% of the labour force) are unemployed, while Cape Town's working-age population is 2 828 000 people, of whom 505 000 (25.1% of labour force) are unemployed.⁷ In the last two years (Q1:2015-Q1:2017), drawing on Labour Force Survey data which recently provided details on metros, Johannesburg's population expanded by 192 000 while creating 46 000 net jobs, and Cape Town's population expanded by 112 000 while creating 88 000 jobs.⁸

These urban centres can absorb many more young job seekers. They have the lowest youth unemployment rates in comparison to other municipalities; they have expanded the number of available job opportunities in recent times and, despite large influxes from other parts of South Africa and from north of our borders, they have not experienced a dramatic rise in their unemployment rates.⁹

Nevertheless, these cities have a long way to go before they compare to the dynamism of Asian cities such as the Mekong Delta in Vietnam, Thailand's Greater Bangkok Metropolitan Area and the Pearl River Delta in China.¹⁰ We will discuss some of the ways in which both the metros and other secondary cities with potential can move towards the goal of achieving the kind of dynamism and expansion of employment we believe possible.

Metros: inclusion and densification

Metros have lower rates of general unemployment, youth unemployment and discouraged work seekers than South Africa as whole. At the same time, youth unemployment is dangerously high in our cities. Most of this unemployment is concentrated in the townships, as well as in the inner cities to which a growing number of poor, unemployed people are attracted.

The table sets out the youth unemployment rates in different parts of Johannesburg, drawing on the regional data compiled in the Southern African Labour-Development Research Unit (SALDRU)'s Youth Explorer, which provides data down to the level of specific city wards.

⁷Statistics South Africa, Quarterly Labour Force Survey Q1:2017, Retrieved from: <http://www.statssa.gov.za/publications/P0211/P02111stQuarter2017.pdf>.

⁸Statistics South Africa, Quarterly Labour Force Survey Q1:2015, Retrieved from: <https://www.statssa.gov.za/publications/P0211/P02111stQuarter2015.pdf>; Statistics South Africa, Quarterly Labour Force Survey Q1:2017, Retrieved from: <http://www.statssa.gov.za/publications/P0211/P02111stQuarter2017.pdf>. The net jobs numbers come from subtracting the number of 2017 jobs from the 2015 number.

⁹Johannesburg's unemployment rate at the beginning of 2015 was 29.7%, and Cape Town's was 24.7%.

¹⁰A. Gonzalez and E. Ijasz-Vasquez, (9 March 2016), 'Competitive Cities Create Jobs and Drive Growth,' World Bank, Retrieved from: <http://www.worldbank.org/en/news/opinion/2016/03/09/>

"Youth unemployment is dangerously high in our cities."

Youth unemployment in Johannesburg: Suburbs, Townships and the Inner City¹¹

Suburb/ Township/ Inner city	Population	Youth aged 15-24	Broad Youth unemployment (%) ¹²	Broad Youth unemployment (number)
Alexandra	161 489	31 932	58.7%	11 702
Diepsloot	137 544	26 717	52.8%	10 030
Zandspruit	54 487	8 938	49.5%	2 845
Berea	34 101	6 593	49.1%	2 250
Hillbrow	48 010	10 284	44.1%	3 097
Yeoville	22 072	5 297	38.7%	822
Sandton	35 695	3 646	24.4%	442
Fourways	80 198	8 157	21.3%	1 004
Linden	19 803	2 489	22.0%	287

■ Townships ■ Inner city ■ Suburbs

CDE 2017, Based on data extracted from Youth Explorer (<https://youthexplorer.org.za/>)

Partly in response to these spatial divergences and especially since the publication of the World Bank's report on the *Economics of South African Townships* in 2014 there has been growing interest in promoting 'township economies'. The report took the position that the poverty and economic weaknesses in these townships could in fact be an advantage. As the report put it: 'the township economy ... can chug alongside the urban formal economy but also can potentially become an important driver of near-term growth.'¹³ Possibly inspired by these ideas, the premier of Gauteng, David Makhura, has made the revitalisation of township economies a provincial focus. A central pillar is the construction of township industrial hubs and business parks (at a total cost of R780-million) and the provision of subsidies for retail investments.¹⁴ The idea of a 'township stock exchange' has been floated to leverage dormant capital in townships, in the form of burial societies and stokvels.

This assistance for the poor and the unemployed in townships will certainly help some young people escape unemployment and poverty, but it is not clear whether these initiatives and others like them represent the best way to encourage the development of areas that have been historically deprived and spatially dislocated. The greatest concern is that if it is implemented in a way that provides special protection to

¹¹This table draws on regional data from SALDRU's Youth Explorer, a recently launched online tool that breaks youth unemployment data and other youth relevant data down to the level of municipal wards. The main source for this data remains the 2011 census. While this makes the data somewhat out of date, it is nevertheless useful for understanding the relative strengths and weaknesses of regions in South Africa. There are very few sources for this kind of regional data and for this level of detail we could only use the Youth Explorer which defines young people as 15-24 year olds. The unemployment rate is calculated as the number of young people out of employment and willing to work as a percentage of the labour force, which excludes all those young people between the ages of 15 and 24 who are neither working nor willing to accept a job. Many of those who are not in the labour force in this age group will be in some kind of education or training.

¹²Youth Explorer provides both youth unemployment and population numbers for these areas according to wards, hence to get the total youth unemployment and population number in each area wards were summed up. In Alexandra we summed up Ward 116, 108, 107, 105, 76 and 75. For Diepsloot we summed up Ward 95 and 113. The numbers for Zandspruit only represent Ward 100 and for Berea it's Ward 64. For Hillbrow Ward 62 and 63, and for Fourways Ward 115, 94 and 9 were summed up. The numbers for Yeoville only represent Ward 67, for Sandton it is only Ward 103 and for Linden, Ward 99.

¹³S. Mahajan, *Economics of South African Townships: Special Focus on Diepsloot* (Washington, DC: World Bank, 2014, p.6)

¹⁴State of the Province address by Premier David Makhura: Thokoza Auditorium, Ekurhuleni metro, 27 June 2014, Retrieved from: <http://www.gautengonline.gov.za/Speeches>

"The township economy approach could serve to retard the integration of township people and businesses into the broader economy."

township residents, the township economy approach will in fact serve to retard the integration of township people and businesses into the broader economy. This would happen if special forms of protection and subsidies create weak enterprises that can neither grow nor survive any real competition, while also providing incentives for firms and people to stay in, rather than move out of, townships that remain centres of poverty and deprivation and are far from the central economic action.¹⁵

Rather than inadvertently strengthening apartheid-era spatial divisions, we need to recognise that township residents will benefit from greater proximity to more dynamic parts of the city. Interventions aimed at townships, especially those such as Diepsloot, Orange Farm and Zandspruit, which are far away from economic hubs, should seek to reduce those distances and help township residents become more mobile. One way in which the disadvantages of being born in a township could be addressed would be through education and training interventions that would enable residents to compete for the job opportunities that exist in surrounding areas.

Metros should focus on integrating the city, so that young people in townships can link with economic opportunities and develop their own. This could be done by ensuring that public roads are well maintained and that public transport is as cheap as possible, both to end users and - because subsidies are inevitable - the state. The basic policy principle should be to subsidise commuters where this is affordable, rather than subsidising service providers. (See *CDE Growth Agenda: Priorities for Mass Employment and Inclusion (Cities) 2016*.)

Metros should also make it easier for poor people to resettle in places where economic activities are concentrated. To achieve that, they need to find ways of reducing the cost of land and of urban housing. This can be achieved by permitting a more intensive use of land within city limits through appropriate zoning rules and approval processes that will provoke a market-led response. Another constructive initiative would be investment in strategic and catalytic projects, such as well-located transport corridors, that will make it possible for developers and households to take advantage of some of the benefits of densification. Metros should also ensure that zoning rules within the city are open and flexible and prioritise the approval of projects that intensify the use of scarce urban space. Finally, they should ensure that building standards are appropriate for a rapidly urbanising, developing country and allow affordable homes to be erected for people at all levels of income.

Rural towns and declining secondary cities

Rural towns are the truly desperate places in South Africa. Incomes are low, businesses and job opportunities are scarce and youth unemployment levels are very high in towns like Bushbuckridge and Thulamela(Thohoyandou). Bushbuckridge exemplifies the challenges. Formerly a settlement in the apartheid-era homelands of Gazankulu and Lebowa and now a municipal area in Mpumalanga province, Bushbuckridge is a sprawling settlement, densely populated in parts and deeply rural and scattered in others. In the main area of Amashangana there are 183 people per square kilometre

“Township residents will benefit from greater proximity to more dynamic parts of the city.”

¹⁵An example of such trends can be found in the draft strategy document issued by the Gauteng Department of Economic Development, 2015: “The township should be declared ‘out of bounds’ to foreign retail entrepreneurs” is one of the more problematic statements in the document. Gauteng Department of Economic Development, Revitalisation of the township economy, Strategy Draft, Retrieved from: <http://www.ecodev.gpg.gov.za/Documents>

compared to the population density for Mpumalanga as a whole of 53 people per square kilometre. The benefits of density in such areas, created by oppressive, apartheid driven relocation policies, is massively offset by poverty levels, lack of local economic opportunities and distance from other urban centres. The closest urban centre is Nelspruit, 58 kilometres away and Johannesburg is about 350 kilometres away.

The youth unemployment rate in Bushbuckridge for 15 -24 year olds stands at an alarming 86.7% (39 855), 84% (92 786) live in income-poor households and 63.9% (78 338) live in households without an employed adult.¹⁶ Almost 80% of households depend on social grants for their main source of income.¹⁷ The municipality's assessment is that Bushbuckridge is beset by challenges such as high poverty levels, high illiteracy, skills shortages, crime, and a backlog of services, bad roads and poor infrastructure. The municipality also lists the area's 'rural nature' as a problem.¹⁸ The only real advantage of this area is its proximity to the Kruger National Park, which attracts some tourists to local shops, petrol stations and craft markets.

Given this situation, any investment-driven project in such an area is likely to be expensive and have very little chance of succeeding. In some cases, investment could make the situation worse, as seems obvious with the provision of RDP housing in such areas. These government-subsidised houses may create some short-term local construction opportunities and make housing more formal, but ultimately they generally serve to keep people in these remote places, far away from any real opportunity to lift themselves out of poverty.

Most young people will never find any opportunities to escape unemployment within the confines of either a stagnant rural area like Bushbuckridge or a municipal region in steep decline like Matjhabeng(Welkom). There, as a result of the steep decline in the gold mining industry since the 1990s, the unemployment rate rose from 35 % in 1996 to 53 % in 2008; the largest increase of any district in the Free State.¹⁹ Currently, the youth unemployment rate in Matjhabeng is 57.6%. Young people are not unaware of their situation. Many of those we spoke to during this project recognised that their best hope of finding employment lay outside the areas where they live. At the same time, they were also acutely aware of the challenges of moving long distances to access labour markets that they only dimly understand and where they would be at a distinct disadvantage in relation to those who live closer, are better educated and may have friends and relatives in employment there.²⁰

Interventions that help people rather than places should listen to these young people and make it easier for them to move to places of economic opportunity. To produce such an outcome, the focus should be on improving rural roads and regional transport. Another priority is improving health services. Sick people cannot work hard, nor can they search effectively for new opportunities. Most importantly,

“Interventions that help people rather than places should make it easier for young people to move to places of economic opportunity.”

¹⁶Youth Explorer, Bushbuckridge, <https://youthexplorer.org.za/profiles/municipality-MP325-bushbuckridge/>

¹⁷StatsSA, General Household Survey, 2015

¹⁸Bushbuckridge Local Municipality, Integrated Development Plan 2011-2016, Retrieved from: <http://www.bushbuckridge.gov.za/>

¹⁹L. Marais, The Impact of Mine Downscaling on the Free State Goldfields (Bloemfontein: Centre for Development Support, University of the Free State, 2013)

²⁰StatsSA, Census 2011, Retrieved from: <http://www.statssa.gov.za>; CDE, Matjhabeng Youth unemployment conversation, 22 August 2016

there needs to be an improvement in schooling quality and an increase in work-relevant training opportunities in rural areas and secondary towns. The skills that these training initiatives produce must be linked to work opportunities in practical ways and should aim to make young people more employable, not just where they live but also in urban centres where job opportunities are comparatively abundant.²¹ Of course, improving the quality of education in a place like Bushbuckridge is an extremely tough challenge. It requires attracting good teachers to the area, finding ways to upgrade existing schools - including the low-fee private schools that have sprung up in large numbers - and making both schools and teachers accountable to the children and parents that they serve.²²

It is also necessary to explore interventions that would give all young job seekers, no matter where they live, access to helpful information about where job opportunities are located, training in how to apply for those opportunities and affordable forms of support to overcome the barriers that they face as they search for employment.²³

Secondary cities with some potential

The focus in metros should be on making them more integrated and much more dynamic. In many rural towns and some of the secondary cities in terminal decline the focus has to be on helping people not the places.

However, in some secondary cities the situation is a lot less clear. Places like Rustenburg, Mbombela (Nelspruit) and Matjhabeng (Welkom) were once fast growing, emerging cities, but have experienced significant economic decline in recent years. We cannot be sure what the future holds for them. Will their local economies experience a revival? Can they become new urban nodes, producing the kind of agglomeration economies generated by Johannesburg? Or will they continue to decline as the core economic activities around which they originally emerged (gold and platinum mining, tourism, regional trade) continue to shrink? It is impossible to answer these questions with any degree of confidence.

It might be worth thinking about strengthening a place like Emalahleni (Witbank). The municipality's main advantage is its strategic location in terms of the provincial context and transport network. It is situated relatively close to the cities of Ekurhuleni, Johannesburg and Tshwane and is connected to these areas by the N4 and N12 freeways. The N4 freeway, plus the railway line that runs adjacent to the freeway from Gauteng to Mozambique, constitute the so-called Maputo Corridor. The southern areas of the municipality form part of a region known as the Energy Mecca of South Africa, due to its rich deposits of coal reserves, which supply its many power stations. The town offers a wide spectrum of business and social activities and has a relatively large industrial area, at least in comparison with many surrounding Mpumalanga towns.

“The focus in metros should be on making them more integrated and much more dynamic.”

²¹For a discussion on how best to generate such training see the main report in this series, No Country for Young People: The crisis of youth unemployment and what to do about it, and Ken Duncan, Apprenticeships for Youth Employment, CDE commissioned paper, 2017.

²²CDE, Hidden Assets: South Africa's low-fee private schools, 2010

²³Harambee, as mentioned below, is doing excellent work in this respect but they don't really reach people in Bushbuckridge.

However, despite these advantages, Emalahleni remains a small economy by comparison with a city like Johannesburg, and its ongoing dependence on coal mining may impose severe limits on its future. Most importantly, due to its size and complexity, Johannesburg can support specialist service sectors, as well as numerous shops and restaurants, whereas Emalahleni cannot. In 2011, the size of the economic product of Johannesburg municipality (GGP) was measured at R288.8 billion, whereas Emalahleni's was R19.4 billion.²⁴ To avoid wasting precious public resources, interventions to support a place like Emalahleni must be based on caution and realism. It would require a lot more research and discussion, but Emalahleni may be a suitable site to set up a Special Economic Zone (SEZ) designed to encourage labour-intensive production. This issue is discussed further below.

Most secondary cities would also benefit from more effective town planning to promote densification and to break down apartheid-era spatial patterns. The practice of allocating land and housing units on the periphery, where land is cheapest, should be reconsidered. Too often, local governments want to maximise the number of housing units they produce, so they build on the periphery. This looks like a cost-effective strategy at the time, but it transfers substantial long-term costs to poor households who face high travel costs forever. There should be more holistic assessments of the costs and benefits of housing projects; assessments should factor in the costs imposed on households and explore alternative ways to free up land closer to economic centres. Policies should seek wherever possible to permit densification and the upgrading of rental units, both to make urban areas more inclusive and to make it easier for rural people to move into empty urban spaces.

A supportive and incremental approach is also best when managing informal settlements, unless they are poorly located. Rather than rehousing informal settlers, it is generally preferable to recognise the tenure of residents and exempt them from the costly standards that apply elsewhere in the city. Legitimation paves the way for the municipality to work with these communities and help upgrade infrastructure, services and the housing stock. (See *CDE Growth Agenda: Priorities for Mass Employment and Inclusion (Cities)* 2016.)

Providing, or in many secondary cities simply maintaining, appropriate infrastructure, especially roads and services such as water and sewerage (which have major implications for poor people's health) are all vitally important to enhance the opportunity-generating capacity of these settlements. The importance of effective planning and management means that the quality of municipal managers, to whom they are accountable, and how that accountability will affect their performance, are important issues that need to be addressed urgently across all forms of local government.

Concluding remarks

Youth unemployment is a result of many of South Africa's defects. Primarily it is caused by an economy that creates too few jobs for the workforce that we have, but it is also influenced by settlement patterns that are, in many ways, inefficient and a legacy of our racially oppressive past. The country has not yet dealt with the

²⁴Harrison, South Africa's "cities of hope": Assessing the role of cities in creating opportunity for young people, Report commissioned by CDE, 2013

"A supportive and incremental approach is also best when managing informal settlements."

legacy of neglect and deprivation that characterised so much of the grand apartheid homeland policy. South Africa does not have a development strategy, based on a firm economic rationale, that deals with the realistic prospects for rural areas, small towns and some larger regions of the country.²⁵ An economically based, rural development strategy that links rural areas to the economy, and does not treat them as something separate, is long overdue. CDE called for national attention to these neglected issues in 2005 when putting forward practical proposals on land reform and its relationship to poverty and unemployment in rural South Africa. (See *CDE, Land Reform In South Africa: A 21st Century Perspective*, 2005).

Policy discussions on local government are generally not based on understanding how these places could contribute to or currently fit into the national economy - as though local development takes place in isolation from dynamics affecting the broader economy.

In this context, CDE is using the material we have to illustrate how we should think about tackling youth unemployment in cities, towns and townships. The goal should be to prioritise and strengthen our cities so that they generate many more job opportunities and become more accessible to the poor. In secondary towns with potential the policy approach must be to open up access to urban centres as much as possible, create more enterprise friendly environments, and consider carefully and cautiously whether economic initiatives such as special economic zones could be viable. (a policy proposal we discuss further below). In general, and especially in deprived rural areas and towns, the aim must be to help people as much as possible, by making them healthier, better educated, more informed and more mobile.

In this context, what should be the priority of local government? In the section that follows we argue that promoting enterprise-led growth in areas with some economic potential is the best way to have a significant impact on youth unemployment at the local level.

Prioritising enterprise-led growth

This section considers the best way to maximise the rate of growth and the number of formal sector jobs created within municipal regions. These should be jobs accessible to young, unemployed people, many of whom are disadvantaged by a lack of work experience and have no qualifications for many of the jobs that are currently being created. South Africa needs to create jobs for the workforce we actually have, not the one we wish we had.

Simply put: without faster, more labour-intensive growth, we will fail to employ the millions of people who need work. This topic was discussed at length in CDE's *Growth Agenda: Priorities for Mass Employment and Inclusion*, published in 2016. And it is discussed further in the main report in this series on youth unemployment, *No country for young people: The crisis of youth unemployment and what to do about it*, 2017.

“Without faster, more labour-intensive growth, we will fail to employ the millions of people who need work.”

²⁵A promising beginning was made in 2006 with the publication of the National Spatial Development Perspective, but no constructive policy initiatives or priorities have emerged out of this report. The Presidency, National Spatial Development Perspective 2006, 2007, Retrieved from: <http://www.gov.za/sites/www.gov.za/files>

In visiting and talking to many different people in various positions in the 20 municipal regions involved in this project we were struck by current approaches and thinking about youth unemployment and what to do about it. Far too frequently conversations focussed on providing employment through municipal procurement policies, which, at best could only employ a small number of young people; or more directly through increasing employment by the municipality itself or through local projects that sought to help some young people become more employable or more entrepreneurial. Far too little time was spent on what municipalities could do to promote local growth by attracting new investments, new firms and by helping existing enterprises expand.

To generate inclusive growth, a priority for all local governments must be to understand how firms create value and employment opportunities, and do this in ways that the public sector and small projects or initiatives cannot. Only then will they be able to consider the best ways to maximise the growth potential of their specific regions.

Why enterprise-led growth?

Too often, at both national and local levels, ‘business’ is regarded purely as an interest group whose purpose is to make profits for its members. The goal of ‘development’ then consists of finding ways to reallocate those profits and to regulate the behaviour of established businesses so that they share benefits with the poor. This amounts to a fundamental misunderstanding of how development works.

The businesses or firms that constitute the enterprise sector of the economy are the drivers of development and, broadly speaking, the more business activity there is, the more development there will be. Such a strategy cannot emerge within a framework that acts, either by intended or unintended consequences, to restrict the size of the enterprise sector. South Africa needs more firms, new kinds of enterprises, and much higher levels of investment. As a society, we need to become much more entrepreneurial if we are to secure a better future for everyone. Generally speaking, the private enterprise sector is better at achieving these goals than the public sector.

Seen in this light, growth that can be sustained and that will significantly transform the opportunities that exist in some South African municipal regions will only emerge if it is driven by private enterprise. There is, at this point, no substitute for the creative and efficient economic energies that private businesses, operating in appropriate regulatory environments and subject to competitive pressures, can deliver in these places. To ensure such outcomes requires states – at local and national levels – that are competent and understand markets.

CDE has frequently pointed out that private firms build organisations that can generate cheaper and better products, more and improved career opportunities, as well as new forms of wealth.²⁶ The market system in which such firms are embedded provides incentives to create such organisations and to continuously pursue increases in organisational efficiency.²⁷ Market-based firms also respond creatively to societies’ changing needs. The market provides the space and the rewards to ensure

²⁶CDE, Why Africa needs its private sector: A presentation by Professor Paul Collier, 2013

²⁷CDE, Is South Africa about to make an historic mistake? A presentation by Professor Ricardo Hausmann, 2017

“Growth that can be sustained will only emerge if it is driven by private enterprise.”

that firms achieve this crucial function. Markets are decentralised systems, allowing people from different regions and stations to formulate new ideas and test them in the marketplace. If these ideas connect to a social need, the firm succeeds; if they don't, or cease to do so, the firm fails.²⁸

Municipalities and local businesses

To achieve growth, local governments need to allow the power and efficiency of enterprises operating in competitive markets to drive their economies. To find out how to do that, the first and most helpful step is to start building appropriate relationships with local business leaders and engage in constructive, institutionalised dialogue.²⁹ Interaction between senior members of local government, the leaders of key local or regional firms, both large and small, as well as organised business, is essential if local governments are to get a clear idea of what firms need to grow and thrive. By focusing on the needs of business, a better environment for growth will emerge, workable public-private partnerships can be established and investments in infrastructure are more likely to yield economic returns.³⁰

It is local circumstances, the distribution of power, the effectiveness of government and the extent of corruption, the nature of economic opportunities and the needs of existing firms that will determine how to achieve this in individual towns and cities. It is important not to expect too much from municipalities with limited resources, capacities and potential, but the performance of all forms of local government would be significantly enhanced if they engaged more actively and constructively with their local business communities. This, of course, also depends on the willingness, integrity and organisational coherence of local business communities.

The scale of what can be achieved if such dialogues are set up properly has been demonstrated by World Bank research. In a project identifying the practices that underpinned the success of fast-growing cities in the developing world, the World Bank identified four critical elements:³¹

- Business leaders were consulted about their needs and the constraints they encountered in their operations;
- Infrastructure investments were made in collaboration with the firms and industries they aimed to serve;
- Skills initiatives were designed in partnership with firms, ensuring that curricula addressed their practical needs;
- Industries were supported where they had a real commercial potential, through collective initiatives with the private sector rather than through the public sector alone.

²⁸For a detailed exposition of this argument see: A. Bernstein, *The case for business in developing economies* (Johannesburg: Penguin Books, 2010)

²⁹K. Sen, *State Business Relations, Topic Guide* (Birmingham, UK: GSDRC, University of Birmingham, 2015), Global Cities Business Alliance, *How cities and business can work together for growth*, Discussion Paper, 2016; J. Seekings & N. Nattrass, *State-Business Relations and pro-poor growth in South Africa*, 2011

³⁰CDE, *CDE Growth Agenda: Priorities for mass employment and inclusion* (Cities), 2016; C. Peiffer, 'Reform' Coalitions: Patterns and hypotheses from a survey of the literature, 2012, Retrieved from: <http://siteresources.worldbank.org>

³¹D. Brautigam and T. Diolle, *Coalitions, Capitalists and Credibility: Overcoming the crisis of confidence at independence in Mauritius*, Research Paper 04, Developmental Leadership Program, 2009, Retrieved from: <http://publications.dlprog.org>

“By focusing on the needs of business, a better environment for growth will emerge.”

“Municipalities need to consider the broader public interest when deciding between competing demands.”

Examples of developing world cities that effectively pursued this strategy include:

- *Gaziantep* is Turkey's sixth-largest city. Its population has grown from about 120 000 people in the 1970s to 1.84 million today. Exports increased tenfold in just 11 years, from \$620 million in 2002 to \$6.2 billion in 2013.³² Throughout the 2000s institutionalised dialogues in Gaziantep brought together municipal officials, business leaders from many economic sectors as well as local experts and civil society organisations. Out of these talks initiatives emerged to provide entrepreneurial assistance and training, the establishment of knowledge exchange networks, technology upgrading schemes, product testing facilities, trade fairs, trade development missions, direct business recruitment, marketing assistance, client development, access to capital, directed investments in infrastructure, as well as regulatory and business climate improvements.³³
- *Bucaramanga* (population 521 287) is the capital of Santander in north-central Colombia. Here, collaboration between the city government and business chambers led to the upgrading of roads and airports, improvements in electrical power generation and distribution the construction of affordable housing, and major investments by foreign companies.³⁴
- *Coimbatore* in Tamil Nadu, India is landlocked, in a country with many competitor cities of a similar size, yet it has achieved income levels that are double the national average and has become a centre for precision manufacturing, mechanical engineering and textiles. The World Bank attributes the city's success to a huge boost to the city's infrastructural growth as well as close collaboration between city government and organised business. The Kovai Pump Manufacturers Association, led by K. Maniraj, has played a central role in coordinating efforts across the pump manufacturing sector and has worked closely with city government. The city produces about two thirds of motor pumps made in India.³⁵

In these ways structured interactions between public- and private-sector stakeholders to promote the right conditions for enterprise-led development, improvements to the business climate and economic development are now regarded as vital for the promotion of growth at the city level.³⁶ Such dialogues and alliances should bring stakeholders together to define and analyse problems, to discuss and agree on specific reforms and to work to ensure that the suggested solutions are implemented. Ideally, they should become formalised and they must be inclusive. All kinds of businesses should have a voice and need to have their concerns considered when developing partnerships and local economic plans.

³²A. Kilroy, M. Mukim, S. Negri, *Competitive cities for jobs and growth: what, who, and how* (Washington, D.C., World Bank Group, 2015), Retrieved from: <http://documents.worldbank.org>

³³A.Cech, D. Gashi, L. Jordan, A. Kilroy, Z.J. Kulenovic, M. Mukim & T.J. Zhu. *Gaziantep-Turkey: A city exports its way to prosperity*, Companion Paper 3 (Washington, D.C. : World Bank Group, 2015), Retrieved from: <http://documents.worldbank.org>; D. Sivaev, B. Herzberg & S. Manchanda, *Public-Private Dialogue for City Competitiveness*, Companion Paper 7, (Washington, D.C: World Bank Group, 2015).

³⁴D. Sivaev, B. Herzberg & S. Manchanda, *Public-Private Dialogue for City Competitiveness*, Companion Paper 7, (Washington, D.C: World Bank Group, 2015).

³⁵A.Cech, D. Gashi, L. Jordan, A. Kilroy, Z.J. Kulenovic, M. Mukim & T.J. Zhu. *Coimbatore-India: A private sector-driven success story*, Companion Paper 3 (Washington, D.C. : World Bank Group, 2015)

³⁶D.W. te Velde, *Effective state-business relations, industrial policy and economic growth*, 2010, Retrieved from: <https://www.odi.org>

It is important to stress that these dialogues should not and generally do not lead to straightforward outcomes in which businesses tell the municipality what to do. Instead, the municipality needs to consider the broader public interest when deciding between competing demands. The municipality needs to display leadership, but all the decisions about where to invest, how to provide services, what to demand from provincial and national governments, which by-laws to enforce and which to scrap, should be informed by an understanding of the needs of business.

Lastly, it is imperative to keep corruption to a minimum, so ad-hoc deals between the municipality and individual companies should be avoided and public private partnerships should only be negotiated where tendering processes are clear and transparent and the municipality has the will and the capacity to enforce the rules of the partnership.

Attracting new investment and promoting the emergence of new firms

A key principle for achieving local development is that municipalities understand that business is a creative force and one they need to foster. What should also be recognised, is that not all existing businesses fully understand the benefits of openness. Municipal decision makers should be strong enough (and honest enough) to resist self-interested attempts by businesses to restrict economic dynamism and market entry to protect themselves from competition. It is not enough, therefore, just to talk to existing businesses. Policies and practices must also seek to attract new investments, to encourage the formation of new firms and raise entrepreneurship levels.

At a more general level, South Africa needs to become more entrepreneurial if we are to have any chance of bringing about a significant reduction in youth unemployment levels. The Global Entrepreneurship Monitor (GEM) is the leading benchmark survey measuring entrepreneurship levels across the globe. Data from the 2016 edition confirms that South Africa has persistently low levels of entrepreneurial activity relative to other countries, and that these levels are falling rather than rising.³⁷

An important reason for these low scores, and the largest constraint to entrepreneurship identified by the 40 experts in South Africa interviewed for the 2015 GEM report, is government's business unfriendly policy framework.³⁸ Almost two-thirds of the experts rated policies that raise the cost of doing business as a critical constraint and these costs have been rising. The latest World Bank Doing Business survey ranks South Africa 74th out 190 countries in terms of ease of doing business. This is two places worse than the previous year's survey. In South Africa, it takes on average 53 days (and six procedures) to start a business. This is roughly twice the amount of time it takes to start a business in sub-Saharan Africa generally and over six times longer than OECD high-income countries.³⁹

"South Africa needs to become more entrepreneurial if we are to have any chance of bringing about a significant reduction in youth unemployment levels."

³⁷ M. Herrington, P. Kew and A. Mwanga, Can small businesses survive in South Africa, South Africa Report 2016/2017 (London: Global Entrepreneurship Monitor-GEM, 2016), Retrieved from: <http://gemconsortium.org/report>.

³⁸ These include experts from government agencies, informal investors, entrepreneurs, business associations, trade unions, commerce chambers, researchers and specialist professors.

³⁹ World Bank, Doing business: Equal opportunity for all, Economic Profile-South Africa (Washington, DC: World Bank, 2017)

Starting a business in South Africa's metros

South African cities lag far behind many other countries in the number of days it takes to start a business:

- Cape Town, Buffalo City (East London), Nelson Mandela Bay (Port Elizabeth), Mangaung (Bloemfontein), eThekweni (Durban), Msunduzi (Pietermaritzburg) – six procedures and 56 days to start a business.
- Tshwane, Johannesburg, Ekurhuleni – six procedures and 46 days to start a business.
- Kenya – the average is 30 days.
- The OECD average, Rwanda, Mexico, UK, Chile, Malaysia, Australia, and New Zealand (the global leader) are all under 10 days.

CDE 2017, based on data extracted from World Bank: Doing Business in South Africa, 2015

“The best way to raise entrepreneurship levels, is to create a much more conducive, business-friendly regulatory environment.”

The best way to raise entrepreneurship levels, which would constitute a significant increase in the number of new businesses as well as the growth of existing businesses, is to create a much more conducive, business-friendly regulatory environment.

Many regulations and government inefficiencies hold back growth in South Africa. The majority of these are at the national level and it is vital that local government starts to ‘shout louder’, ie to document their impact and their negative consequences and raise their voices against them, with the mayor and business leaders taking the lead.⁴⁰ At the same time, a number of municipal-level practices, licensing requirements and zoning laws make it difficult, especially for small businesses, to operate, and they discourage new firms from starting up.

In 2013 the International Labour Organisation (ILO) surveyed 414 small and medium-sized enterprises in Mangaung (Bloemfontein) and Matjhabeng (Welkom) municipalities in the Free State province. The survey revealed that compliance costs for Mangaung amounted to R3.314 billion for all these businesses; for the smaller Matjhabeng Municipality the cost was R505 million. Regulations that were deemed burdensome by firms included: municipal bylaws; zoning and rezoning activities; restrictions on putting up signage; the Municipal Systems Act; health regulations; various municipal clearance certificates; the Liquor Act; town ordinances; the Consumer Protection Act; Value Added Tax (VAT) requirements; the National Credit Regulation; SMME regulations; companies registration legislation; industry-specific licences and approvals; and the Occupational Health and Safety Act. All of this red tape makes it more expensive and difficult to set up and run a small business, thereby ensuring that there are fewer formal businesses. The survey also found that business owners experienced difficulties with filling in complex forms, standing in long queues and waiting for permits to be issued.⁴¹

⁴⁰For a detailed assessment of the challenge see, BLSA/BUSA, A Review of regulatory challenges uncertainty impeding investment & employment in South Africa, 2017

⁴¹J. D. Christensen, F. Hegazy and J. van Zyl, The cost of red tape: An Assessment of Administrative Barriers and Regulatory Costs for SMEs in South Africa (Geneva: ILO, 2016), Retrieved from: <http://www.ilo.org>

All municipalities should review their zoning and by-laws and assess the extent to which these inhibit the ability of local businesses to expand, raise the cost of starting a business or restrict businesses' access to markets. Once again, it would be helpful if municipalities engaged local business communities on this issue. Local business organisations should have a clear position on and develop a detailed analysis of the ways in which local by-laws and other municipal practices inhibit business growth.

The myth that young unemployed people can be made into self-employed entrepreneurs

Can entrepreneurship programmes, whether public or private, help young unemployed South Africans set up their own businesses? Can the youth unemployment crisis be addressed in this way as a substitute for accelerating growth and significantly expanding formal job opportunities? A growing cohort of advocates and policy-makers, including many people we met in the 20 municipalities we visited, seem to think so. The hope is that with the right kind of support, young people who cannot find jobs will somehow be able to start up their own, innovative enterprises.⁴²

The problem is that high unemployment and low levels of entrepreneurship are inextricably linked. South Africa's levels of entrepreneurship are so low because unemployment rates are so high. Much of the literature on entrepreneurship now stresses the role of education, culture and eco-systems in determining the extent and quality of entrepreneurship levels across the world.⁴³ This view supplements an older perspective on entrepreneurship, which argued that work experience (perhaps more than any other factor, including cultural attitudes and entrepreneurial ability) was the essential prerequisite for succeeding in an entrepreneurial endeavour.⁴⁴ As CDE summed it up as far back as 2004, in a report on entrepreneurship called *Key to Growth: Supporting South Africa's Emerging Entrepreneurs*, the best training to be an entrepreneur is a job.⁴⁵ The advocates of this view understood that it is through the experience of working in specific industries that people acquire the tacit knowhow required to run a successful business. This is also why most small businesses in the world are family businesses, with skills (and other assets) passed from one generation to the next. Of course, another, not necessarily mutually exclusive way to absorb this knowhow is through interactions with other entrepreneurs, from whom budding entrepreneurs can learn and draw inspiration. More often than not, though, work experience is vital to the development of successful growth-oriented entrepreneurial activity.⁴⁶

"The best training to be an entrepreneur is a job."

⁴²See for example, South African Youth Chamber of Commerce (SAYCC) president Thapelo Maleke quoted in, A. Kilian, (9 June 2017), 'Innovation, entrepreneurship key to tackling unemployment,' Engineering News, Retrieved from: <http://www.engineeringnews.co.za/article/innovation-entrepreneurship-key-to-tackling-unemployment-2017-06-09>.

⁴³M. Herrington and P. Kew, *Global Entrepreneurship Monitor 2016/2017 Global Report* (London: Global Entrepreneurship Monitor-GEM, 2016), Retrieved from: <http://www.gemconsortium.org/report>; S

⁴⁴J. M. Unger, A. Rauch, M. Frese and N. Rosenbusch, 'Human capital and entrepreneurial success: A meta-analytical review,' *Journal of Business Venturing*, 26(3), 2011, pp. 341-358; V. Wadhwa, R. Aggarwal, K. Holly and A. Salkever, *The Anatomy of an Entrepreneur: Making of a Successful Entrepreneur* (Missouri: Kauffman Foundation, 2009), Retrieved from: <http://www.kauffman.org/>; R. Che Rose, N. Kuma and L. Li Yen, 'The dynamics of entrepreneurs' success factors in influencing venture growth,' *Journal of Asia Entrepreneurship and Sustainability*, 11(2), 2006, Retrieved from: <http://www.asiaentrepreneurshipjournal.com>.

⁴⁵CDE, *Key To Growth: Supporting South Africa's Emerging Entrepreneurs*, 2004

⁴⁶Presentation by Stephen Timm, CDE/AMERU roundtable on youth unemployment, Cape Town, 12 May 2017.

“It is likely that the factors that underpin high youth unemployment rates also explain the low levels of entrepreneurial activity in South Africa.”

If we accept these arguments, it becomes difficult to see youth entrepreneurship promotion as a potential solution to the youth unemployment crisis in South Africa. We are not talking here of graduates or the very unusual situation of especially talented entrepreneurs starting a multi-billion rand company in the garage. These are the exceptions. We are referring to the millions and millions of young unemployed South Africans who are currently out of employment and who do not have the ‘knowhow’ to start a new, competitive company.⁴⁷ Thus, rather than a sudden upsurge of daring young innovators emerging following interventions that train budding entrepreneurs or provide them with subsidised credit, it is much more likely that many of the factors that underpin high youth unemployment rates also explain the low levels of entrepreneurial activity in South Africa. Poorly- educated young people with no connections to the labour market and no real understanding of the world of work are unlikely to have any idea how to start a successful business. Overcoming this through abstract training or even through carefully designed incubation programmes will be a tough challenge and relatively few young people are likely to benefit. As the ongoing fall in entrepreneurship levels suggests, unless we broadly tackle the underlying conditions that severely disadvantage so many of our young people, we will not be able to produce the large-scale turnaround in entrepreneurship levels that we need to make a significant impact on the country’s deeply entrenched youth unemployment crisis.

Can some forms of entrepreneurship promotion work?

To promote entrepreneurship more effectively at the regional level it is worth considering the approach championed by Dan Isenberg, one of the leading entrepreneurship promotion experts in the world. He cautions against an overly enthusiastic focus on increasing the quantity of start-ups. Even if these efforts succeed, they will most likely produce small, vulnerable firms which fail regularly and generate practically no job opportunities outside self-employment. As Isenberg puts it: ‘One venture which grows to 100 people in five years is probably more beneficial (to entrepreneurs, shareholders, employees and governments alike) than 50 which stagnate at two. Just two or three unusually scaling ventures can have an utterly disproportionate impact on dozens of successors and impact the entrepreneurship culture in a region’.⁴⁸

Isenberg’s focus is on helping established, small firms grow. His ‘Scale-Up Initiative’ consists of three interrelated spheres of activity undertaken intensively in the form of a regional pilot. The essential elements are:

1. **Quickly demonstrating new growth:** The idea is to identify local firms with potential and design strategies that will produce rapid growth, and then publicise those successes.
2. **Broadly communicating growth:** Telling growth stories for all to hear is seen as a strategic necessity for growth to spread broadly and to sink deep into the culture. Entrepreneurs need to learn that highlighting

⁴⁷For a discussion on the importance of knowhow for firm formation see CDE, Is South Africa about to make an historic mistake? A presentation by Professor Ricardo Hausmann, 2017.

⁴⁸D. Isenberg and V. Onyemah, (28 March 2017), ‘Start-ups won’t save the economy: But ‘scale ups’ could,’ World Economic Forum, Retrieved from: <https://www.weforum.org/agenda/2017/03>

their own growth attracts talent and customers. Mayors and other public officials need to learn that communicating growth helps make their cities more attractive to businesses and investors and helps them to compete with megacities for talent. Making growth a legitimate discussion topic and an integral part of the culture has a cumulative effect on local entrepreneurship levels.

3. **Training stakeholders to support growth:** To promote growth, Isenberg's organisation teaches local lending officers how to talk to businesses that are afraid that taking debt onto their balance sheets is riskier than maintaining a flat-growth business. They teach journalists how to interview entrepreneurs and elicit their stories of growth. They help local NGOs start growth projects for their own constituencies. They create a platform to identify and train the best and most experienced professionals and executives how to mentor growing firms, which then produces an elite corps of active mentors who spend time over a number of years (2-3) helping local entrepreneurs grow. They convene investors and investment professionals in financial innovation workshops to see the growth first hand and then invent financial instruments that would help them profit from financing the growth.

This kind of entrepreneurship promotion could possibly be initiated at an experimental, regional level. It may be possible to catalyse some change in entrepreneurial levels by piloting the approach in a secondary city or even a region in a metro, but one would first need to do research to assess the business potential in the area, as well as the willingness and capacity at the municipal level to lead such an approach. It would also require involving an implementing agency to facilitate the dialogues between the municipality and local business community, to undertake the training and design the instruments, and to publicise the successes.

CDE 2017

“The by-laws the municipality enacts need to be assessed in terms of the barriers to business they create.”

Concluding remarks

Promoting enterprise-led growth in metros and in some cities and towns with potential can be achieved in two interlinked ways:

Growth dialogues and alliances. These should permit better coordination and understanding between local governments and businesses and their organisations. By working together government and business can identify opportunities and remove constraints to business growth. They can also be effective in attracting new investments by promoting a city and a town, and by making it clear that the regulatory environment is as business friendly as possible.

Cutting red tape. This can be achieved by removing or modifying unnecessary by-laws, zoning ordinances and other factors that make it costly and difficult to establish new businesses in ideal locations in towns and cities. This is not to suggest that municipalities abandon their regulatory functions and focus only on the needs of business. Sanitation, health and traffic flow are all important issues that some by laws can improve. However, rather than prioritising these concerns to the exclusion of all other, all the by-laws that the municipality enacts need to be assessed in terms of the barriers to business they create. Reforms and repeals can then take place on the basis of this understanding.

These initiatives are vital for tackling youth unemployment in cities and in towns. By promoting the emergence of new businesses and by growing existing business, jobs will be created, and growth will be generated, all of which will expand the number of opportunities that young people can access. This is the only way to tackle the youth unemployment crisis at scale.

Two additional policy considerations

There are two major policy issues on which we have touched, which are worth considering further. The way forward on both of them is not entirely clear.

First, we have made the point that to help people in unpromising places it would be useful to find ways of providing them with information on where to look for work, and with training on how to look for work (writing convincing CV's, learning what they are capable of and explaining their capabilities to potential employers, etc). How to do that is a difficult challenge, one that even rich countries struggle to get right. Government has tried to address the issue by setting up labour centres across the country. Is the best policy to stick with and improve these centres? Or should we look for an alternative way to provide employment services to people stuck in rural towns where there are no suitable jobs for them?

Another question is whether we should design policy to more directly promote jobs and growth in certain cities. One way to do that would be through special economic zones (SEZs) that could be set up in a secondary city with potential. Is this a good idea? And if it is, how should it be designed and implemented?

Better labour centres?

In places like Bushbuckridge, where so many people are far away from work opportunities, lack work experience and come from households where nobody works, it would be useful to provide local job-seekers with career advice, some training on how to look for jobs and information on where the jobs are located. Not-for-profit initiatives such as Harambee and Afrika Tikkun, as well as many private employment agencies, do an excellent job in this respect, but they have limited reach and impact. Generally located in cities, their contribution is dwarfed by the scale of the country-wide challenge with millions of young unemployed and they are unlikely to expand into remote areas like Bushbuckridge, or Thulamela. Private employment agencies, on the other hand, are often not accessible for poor job searchers.

The state has established Public Employment Services (PES).⁴⁹ The intention is to provide the services through a country-wide network of labour centres. There are currently 125 of them, with high-density provinces like Gauteng hosting the most.⁵⁰ Whether the coverage of these centres is as comprehensive as it is supposed to be is not entirely clear. However specially commissioned CDE research shows that in certain provinces the number of potential job-seekers per labour centre is substantially higher than in other provinces and overall, the evidence suggests that South Africa has too few labour centres or staff to deal with potential demand. The

⁴⁹<http://www.labour.gov.za/DOL/downloads/legislation/acts/public-employment-services/employersact2014.pdf>.

⁵⁰There is, however, no centre in Bushbuckridge.

“Special economic zones (SEZs) could be set up in secondary cities with potential.”

Department of Labour has announced plans in 2016 to construct 24 new labour centres.⁵¹ However, the greater problem with the centres is not the quantity, but the quality of the services they provide.

Alongside other functions, such as processing UIF claims and inspecting local employers for compliance with labour laws, the employment services that the centres should provide include:

- registering unemployed and under-employed work-seekers,
- providing employment counselling,
- looking for and registering opportunities for the absorption of work-seekers,
- matching job-seekers with appropriate opportunities,
- referring unemployed people to employers and other institutions for potential placement,
- helping the unemployed access unemployment benefits.

The assistance people actually receive in these centres is very far from these stated ideals. Of the 618 570 unemployed South Africans who registered with the labour centres, only 2.3%, or 14 634, were successfully placed in full-time employment by September 2015.⁵²

Researchers' conversations with people who run labour centres, as well as those who make use of their services, make it clear that they are immensely under-resourced in terms of personnel and procedures. The list of services they are supposed to provide requires well-trained, specialised people who can assist job-seekers according to their particular needs. They are also expected to provide individual support trajectories directing young people towards the services of other organisations, in the many cases where labour centres cannot assist.

It is also vital that employers trust and make use of the people recommended by the centres. Very few employers appear to feel that way. In a case study undertaken for CDE in Rustenburg, almost all employers interviewed preferred to use private employment agencies or relied on their own networks and screening processes when seeking to fill a position. An independent study in 2016 found similar results, with a majority of respondents not posting their vacancies in the labour centres.⁵³

Researchers commissioned by CDE also found that the contact databases of registered job-seekers are hardly ever updated and registrants very rarely contacted. Many labour centres have no procedures in place for those who are actively looking for job-opportunities in their immediate vicinity, never mind further afield, where more job opportunities could be located. When asked, staff at the labour centres responded that they could not actively look for job opportunities as there were no available channels that would permit such a search. They also explained that they had no contact with local businesses or education institutions in their areas, so that they relied completely on employers to let them know about any vacancies.⁵⁴

“The problem with labour centres is not the quantity, but the quality of the services they provide.”

⁵¹A. Biden and C. Barberton, Review of Government Labour Centres, Report commissioned by CDE, 2017

⁵²I. Ollis, (23 September 2015), 'Public Employment Service misses mark – Ian Ollis,' Politicsweb, Retrieved from: <http://www.politicsweb.co.za/politics/public-employment-service-misses-mark-ian-ollis>

⁵³Mazibuko-Madalani, Nonkululeko Innocentia, Challenges with service delivery in the public sector: the case of labour centres in Johannesburg and Emalahleni (Witbank), (2016), <http://wiredspace.wits.ac.za/handle/10539/20724>

⁵⁴A. Biden and C. Barberton, Review of Government Labour Centres, Report commissioned by CDE, 2017, as well as information gleaned from conversations with young people, businesses and officials across the 20 youth unemployment hotspots.

Improving these labour centres to the point where they start to play a constructive role in the lives of poor job-seekers seems like a distant goal. It might therefore be more sensible to explore ways to privatise them, or to combine them with other kinds of private service providers.⁵⁵

Special Economic Zones

In coastal centres with good, underused ports - a description that applies particularly strongly to Nelson Mandela Bay - CDE has undertaken extensive research to show that it is a good idea to establish an export processing zone (EPZ). In CDE's *Growth Agenda: Priorities for Mass Employment and Inclusion series*, one report is devoted to this topic, proposing an export processing zone for the Nelson Mandela Bay metro. In this report CDE's research concluded that setting up an EPZ in the area would build on the region's advantages of well-functioning ports geared to exports and imports of manufactured goods, as well as access to large numbers of workers with training and experience in manufacturing activities. The principal goal of the EPZ would be to attract the kind of firms South Africa most needs: those involved in labour-intensive manufacturing such as clothing, footwear and toys that create numerous jobs for unskilled workers. Firms locating in such an EPZ would be engaged in export-directed activities (mostly manufacturing). They would have duty-free imports and would benefit from rapid customs and export clearance. The main difference between them and firms outside the EPZ would be that they would be free to negotiate wages and working hours, to enable them to expand and contract their workforce as market conditions changed.⁵⁶

Should such experiments be encouraged and allowed in other parts of the country? It may be worth considering setting up Special Economic Zones (SEZs) within other metros and secondary cities of South Africa that go beyond a narrow focus on exports, largely because of the potential impact this will have on creating new employment opportunities. If this is to succeed, however, the following issues would have to be taken into account:

- The regions in which the SEZs are established must have some economic potential. The areas must already have well established infrastructure and transport networks, access to a pool of skilled and semi-skilled workers, and a network of service providers. Establishing an SEZ in a remote rural town is almost certainly doomed to fail.
- SEZs are unlikely to deliver unless they provide a compelling reason for firms to locate there. Barriers to employment-intensive growth in South Africa such as labour costs, regulations, electricity and transport infrastructure, as well as the broader business regulatory environment, could all be modified within the confines of an SEZ to promote labour intensive production.

⁵⁵In Britain, studies have pointed to the limitations of government-run Jobcentres and have called for reforms that would increase the involvement of private providers as well as the levels of accountability within the centres. See, Ed Holmes, *Personalised Welfare, Rethinking employment support and Jobcentres*, Policy Exchange, 2011.

⁵⁶See CDE, *The Growth Agenda: Priorities for Mass Employment and Inclusion (An Export Processing Zone for Nelson Mandela Bay)* 2016

“The principal goal of the EPZ would be to attract the kind of firms South Africa most needs.”

- SEZs are normally designed and implemented at the national level, with a 'one-size-fits-all' approach. A better way may be to allow elements of locally driven, bottom up initiatives that would allow the design of the SEZ to fit with the requirements of specific locations. This could work, furthermore, if it is accompanied by efforts to deepen partnerships and coordination among key stakeholders. Cities could benefit from mobilising all stakeholders to work within a common timeframe to achieve broader development goals within the context of specific SEZs. If local firms identify particular opportunities for expansion and specialization within an area, that could be a sound indicator of possible success.
- Access to good quality industrial land and infrastructure is a key factor for unlocking job-creating manufacturing investment in South Africa. We also know there is considerable publicly owned land across the country, but a comprehensive data base of this land does not exist. So an important part of the SEZ programme could be to undertake an audit of public land to identify potential SEZ sites and to assess them for possible uses.
- In the current political context, the SEZ instrument might be most effectively used, as it was in China, Mauritius, and elsewhere, to pilot policy reforms that would be politically difficult to do at a national level.⁵⁷

SEZs must be both viable and special. They must offer something investors want that is different from that found in surrounding locations, and they must provide an environment in which firms can establish themselves in a cost-effective manner. The primary goal has to be to promote labour intensive firms that will provide jobs for the labour force we have.

This will only work properly if SEZs are located in and around urban areas (metros, secondary cities) with potential. They should be embedded in city-led growth alliances and dialogues, and provide companies with incentives to be more labour intensive and job-creating than firms in other parts of the economy. They should also be regarded as experimental sites where it would become possible to check how certain kinds of regulations and labour practices (from which firms in the SEZs could be exempt) act as barriers to job creation in South Africa.⁵⁸

Concluding remarks

There are two big challenges facing cities, towns and regions in South Africa. How to help young unemployed people connect to work opportunities more effectively; and how to encourage more investment and economic growth in labour intensive sectors to create many more jobs for young unskilled people. Government run labour centres are struggling to deal with the many demands of millions of unemployed South Africans across the country. Is there something better that could be developed? Growth in many parts of the country is stagnant or not fast enough. Are there opportunities for labour intensive investments and firms in places we haven't thought of yet, which could be viable and offer economic opportunities for firms

“SEZs should be regarded as experimental sites where it is possible to check how certain kinds of regulations and labour practices act as barriers to job creation.”

⁵⁷ For a more in-depth discussion on this policy issue see: CDE, Special Economic Zones: Lessons For South Africa from International Evidence and Local Experience, 2012

⁵⁸ One concern however is that by not restricting SEZ to exports only political complications may arise. Local firms who could feel threatened by these SEZs are likely to resist them.

ready to create employment opportunities for the young workforce that we have? These are two crucial policy questions that require further investigation.

Policy priorities

This report reviews the challenges of youth unemployment as they manifest themselves across metros, townships, secondary cities, as rural towns and surrounding areas. We focus on the critical importance of promoting enterprise-led growth and of raising the country's entrepreneurship levels. We show how municipalities that engaged local businesses in constructive dialogues and sought to cut red tape could make a positive contribution to raising growth rates and creating new jobs for the workforce South Africa has. We discuss both the importance of, and the challenges associated with, providing young unemployed people with information and assistance in their search for jobs, and suggest creating SEZ's in carefully selected locations.

In this final section we consider the policy priorities that would most effectively help young people in the places where they live.

When CDE visited Thulamela (Thohoyandou) in northern Limpopo to discuss the challenge of youth unemployment in the region, a young person at the workshop made a statement that sums up one of the central arguments of this report: "There is a big difference between young people in rural areas and those in the urban areas, consequently they need different resources to get out of unemployment." When we think about policy priorities to overcome the crisis of youth unemployment, we need to take into account not only where these policies will be implemented, but also whom we are targeting. While this may seem obvious, youth unemployment policy discussions do not usually take such differences into account. To address this gap, we recommend the following policy priorities for different categories of young people:

Young people in inner cities – Like most young unemployed people, those living in inner cities, a high proportion of whom are unemployed, would benefit from better training opportunities. Unlike more rural areas, there are especially strong opportunities to do this in inner cities, but the whole process of providing training needs to be significantly improved. In a metro like Johannesburg, at least, there are a growing number of TVET colleges, but these need to link up much more effectively with the needs of employers and they need to find ways of providing learners with practical skills that will make them more job ready. This will depend on expanding and deepening artisan and apprenticeship programmes by removing obstacles and incentivising employers offering work-based training - which could include revising BBBEE codes to give credit for work-based learning. It also depends on restructuring the funding formula for public TVET colleges and bringing in private providers, both local and international, in an effective way.

The advantage of young people in the inner city is that they could, in the case of an economic revival that is more labour intensive, find themselves well located in relation to where these opportunities would be generated. Some of them may work in or for informal enterprises, which metro governments have in the past undermined through excessive police action against traders and the over-zealous enforcement of by-laws. The best way to combat informality is to strengthen and expand the formal sector, and to make it much easier for informal businesses to register and become tax-compliant. In a country with the kinds of unemployment rates that we currently have,

"Expand and deepen artisan and apprenticeship programmes by removing obstacles and incentivising employers offering work-based training."

both local and national governments should avoid, as much as possible, destroying the jobs and livelihoods that we have. A greater tolerance for informal enterprises in inner cities is therefore needed.

Young people in townships – CDE would support experiments to attract more job-creating businesses into and around urban townships. Policy initiatives should try to establish zones that could attract factories and entrepreneurs closer to townships, and more land for business should be made available in and around densely settled poor areas. In particular, as suggested by the World Bank, business activities could be encouraged in the old buffer zones between townships and suburbs.

At the same time, we are concerned by calls for protectionism in relation to townships, and are opposed to initiatives that would undermine the gradual eradication of townships as distinct, disadvantaged areas of settlement. The primary focus of policy makers when thinking about townships must be to provide skills and access to jobs across the whole city, in ways that would allow township residents to become much more integrated into the formal, expanding, modern economy. And we must find ways to lower the cost of transport so that job seekers can more easily look for work outside the townships and employed residents can spend a smaller proportion of their incomes on this often punitively high, daily expense.

Young people in rural towns and surrounding areas – Most rural towns have very limited economic potential and most of these places have gone into decline. This should not preclude the possibility that some could turn their situations around. A tiny and remote rural town such as Wakkerstroom has, for example, experienced some success by becoming a destination for birders. However, it is important to be realistic both about how many towns will be able to engineer such a strategy, and also about how many economic opportunities such strategies will generate for the local poor and unemployed. Only a few towns can become birding centres. The primary focus of municipalities must be to get the basics right (i.e. manage their finances, pay their bills and maintain existing infrastructure) and the broader policy focus in such areas must be on making young unemployed people more employable and more mobile within the context of a rapidly urbanising economy.

With respect to the goal of making young unemployed rural residents more mobile it would be useful to explore ways of establishing accessible and more user-friendly advice on where job opportunities are located, on how to search for work effectively and on career guidance. This is a difficult challenge but we should be looking at ways to combine the effectiveness of privately-run initiatives with the coverage that public services can achieve. We should at least explore models that would allow private and/or not-for-profit agencies to take over the management of some of the existing public employment services.

Young people in secondary cities with economic potential – As pointed to in the report, one way to bring jobs to young people living in secondary cities with economic potential is to set up special economic zones, in places where this might make sense. Emalahleni(Witbank), with a relatively well-established business sector and good location with regards to infrastructure and larger metros, might be one place where this could be considered. It is vital to remember though, that such zones should be seen as a way to entice firms to undertake forms of production and job creation that are not currently taking place in South Africa, and which will generate

“CDE would support experiments to attract more job-creating businesses into and around urban townships.”

job opportunities that are accessible for the young unemployed living in and around the municipal region of Emalahleni. Such zones will not work, if they are seen as a way to spread economic activity more evenly, to areas that have very little economic potential.

Finally, we explore the priorities that emerge from our analysis for municipalities, for business and for national government.

Municipalities should:

Shift from promoting special projects, unrealistic local economic development plans, procurement initiatives that seek to favour the disadvantaged, and notions that entrepreneurship promotion will convert young unemployed people into dynamic entrepreneurs.

The first priority for municipalities is to get the basics right. Corrupt, inefficient local governments with little capacity can inflict serious harm on local businesses. This was clearly emphasised recently in Standerton, when the municipality's failure to pay its electricity bill threatened to destroy the farming operations of Astral's Goldi processing plant and Meadow Feeds mill. Luckily, the business group raised the alarm on this issue and a compromise was reached. If Eskom had cut the power supply, 4 115 jobs in Standerton would have been destroyed.⁵⁹

Getting the basics right would help to strengthen the legitimacy of local governments and could then create a foundation for building better relationships between local enterprises and the municipality. On that basis, municipalities could then take this further by initiating constructive growth dialogues with local businesses. This is a much more complex and vital task in large metros such as Johannesburg and Cape Town (where many promising initiatives have been and are being launched) than it is in secondary towns with small business communities and under-capacitated municipalities. However, even in municipalities with relatively limited economic potential, progress towards more effective dialogues between business and government could yield positive results without necessarily requiring any large financial outlays.

It is also vital in terms of strengthening existing businesses, attracting new investments and raising local entrepreneurial levels that cities and towns review their regulatory environments and get rid of the by-laws, zoning regulations and other practices that raise the local cost of doing business.

When it comes to town planning, municipalities need to focus on densification and overcoming the spatial legacies of apartheid. This will reduce the costs of travel, but requires making land available in areas where there are some economic opportunities. Rather than a top down approach, municipalities should reduce barriers that many zoning and building-standard regulations create, and seek to work with existing communities to upgrade their settlements and ensure they have access to basic services. Municipalities should make sure that there is no unnecessary shortage of rental space for commercial activity; and they should try as much as possible to

⁵⁹<http://www.engineeringnews.co.za/article/astral-says-municipal-electricity-cuts-catastrophic-for-its-standerton-operations-2017-01-13>

“The first priority for municipalities is to get the basics right.”

ensure that the transfer of property ownership is as painless as possible so that land can be in the hands of those who would use it most productively.

Municipalities have a limited, but nevertheless important, ability to transform the business environment in South Africa. Most of the regulations that raise costs and increase uncertainty emanate from the national government. Municipalities, ideally led by the mayor and supported by the business community, could, however, play a larger role in documenting the negative impact of these national laws, regulations and practices and raising their collective voices to push for national reforms. By pointing out that new proposed national regulations will likely lead to the closure of a local industry, for example, a mayor of a town could at least make these kinds of costs more real for legislators.

Business must do better

At both the national and the local level, businesses need to become better at representing their interests. Especially at the local level, it would be a good idea to find ways of representing all the businesses, across sectors and sizes, within a municipal region, and then developing a clear and informed strategy for engaging with local, provincial and national governments. This will not be easy. It will require intensive negotiations, locally informed research, and a commitment to a process of building trust and understanding across the business sectors and business owners from different backgrounds.

On the whole, business organisations must get better at making the case for much higher and more inclusive growth as the only foundation to overcome the challenges of unemployment (including youth unemployment), as well as poverty and inequality. They also need to focus on how South Africa can become more entrepreneurial by creating an environment in which many newer and smaller- and especially rapidly growing- firms can emerge. At an even higher level, all businesses should be able to explain the benefits of enterprise-led growth by putting forward practical proposals on how well regulated, dynamic markets and private companies can help resolve the country's critical challenges.

South Africa needs to rethink its approach to the challenge of youth unemployment.

There can be no more damning critique of existing policy, with its emphasis on high-wage, well-protected jobs, than the fact that the number of young people in work has not only failed to keep pace with population growth since 2008 it has actually fallen in absolute terms. There is simply no way that current policies or the projects, programmes and interventions currently being implemented can address this issue significantly.

Instead, South Africa needs to put enterprise-led growth, at the centre of our development strategy. This means focusing on the reforms needed to spur more rapid growth in business investment, and, in particular, to emphasise those reforms that have the potential to facilitate the rapid expansion of labour-intensive and export-focused activities. This is as true of our national priorities as it is of policies that focus specifically on our cities, towns and townships.

“Business organisations must get better at making the case for much higher and more inclusive growth to overcome the challenges of unemployment.”

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These reports are available at www.cde.org.za/unemployment/

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Active Labour Market Interventions for Youths across the World: Evidence on Overall Effectiveness, Decentralization, and Implementation

Jochen Kluge, Humboldt-Universität zu Berlin and RWI

A Review of Entrepreneurship and Entrepreneurship Policy: Lessons for Emerging Economies

Ross Brown, University of St Andrews

Public Funding to Address Youth Unemployment

Jonathan Carter, Cornerstone Economic Research

Review of Government Labour Centres

Angela Biden and Conrad Barberton, Cornerstone Economic Research

Rustenburg Municipality Case Study: Examining the Pathways to Employment

Angela Biden and Conrad Barberton, Cornerstone Economic Research

Is it Possible to Promote Entrepreneurship at Scale in South Africa? A Review of the Evidence

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Local Economic Growth Study: Johannesburg and Mbombela

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Think pieces

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The CDE/African Microeconomic Research Unit (AMERU) roundtable on youth unemployment held in Cape Town on 11 and 12 May 2017 received financial support from the Swiss Agency for Development and Cooperation and the Swiss National Science Foundation under the Swiss Programme for Research on Global Issues for Development (project Nr. 400340_147836).

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Published in August 2017 by The Centre for Development and Enterprise

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